

February 6, 2004

To The Honorable Mayor Cluck,
Members of the City Council,
and City Manager,
City of Arlington
Arlington, Texas

The Comprehensive Annual Financial Report (the "Report") of the City of Arlington, Texas (the "City") for the fiscal year ended September 30, 2003, is submitted for your information and review. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, resides with the City's management. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

In last year's financial statements, the City implemented a dramatic change in governmental financial reporting. This new presentation provides better information to users of the comprehensive annual financial report. The new reporting model issued by the Governmental Accounting Standards Board requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

The accompanying Report is divided into three sections: introductory, financial, and statistical. The introductory section contains a table of contents, this transmittal letter, an organizational chart, and a list of principal officials. The financial section includes the MD&A, Government-wide and Major Fund Financial Statements, Required Supplementary Information, Combining Individual Nonmajor Fund Statements, as well as the independent auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The Single Audit Reports are available upon request from the City's Finance Department.

The financial reporting entity (the City) includes all the funds of the primary government (i.e., the City of Arlington, as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Blended component units, although legally separate entities, are in substance part of the primary

government's operations and are included as part of the primary government. Accordingly, financial statements of the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income Plan, and Part-Time Deferred Income Trust are "blended" with those of the City. Discretely presented component units are reported separately in the financial statements to emphasize that they are legally separate from the primary government. The Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Housing Finance Corporation, Arlington Industrial Development Corporation, and Arlington Convention and Visitors Bureau, Inc. are reported as discretely presented component units.

The City provides a full range of municipal services including police and fire protection; utility services; the construction and maintenance of highways, streets and infrastructure; recreational activities and cultural events.

I believe that the Report, prepared by the City's Finance Department, based on generally accepted accounting principles, conforms to the standards of governmental accounting and financial reporting principles as promulgated by the Governmental Accounting Standards Board.

Economic Condition and Outlook

The City of Arlington is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. As a result of its unique location, Arlington enjoys strong commercial/industrial and population growth. The City currently has a land area of 98.7 square miles and a population of 351,719 (estimated by the City's Planning and Development Services Department).

As of September 30, 2003, the unemployment rate for Arlington was 6.3 percent, which is the same as the Tarrant County rate of 6.3 percent and lower than the State of Texas rate of 6.6 percent for the same time period. The consumer price index for the past twelve months showed a 2.2 percent increase in the Arlington area compared to the 2.3 percent average increase for the United States.

Strategic Direction

The City's vision, mission, and values clearly define for the city staff and the community what issues are most important to Arlington.

Vision

Arlington is committed to being a pre-eminent city, providing an exemplary environment in which to live, work, and play.

Mission

The mission of the City of Arlington is to enact the will of the people through their active, inclusive participation and to provide the services they demand in a quality, cost effective manner.

To accomplish our mission we will:

- Practice responsive, effective governance
- Be unrelenting in our efforts to improve service quality, cost, and effectiveness
- Create and maintain effective partnerships
- Value diversity in the organization and community
- Be accountable to citizens and each other for our actions
- Uphold the highest professional and ethical standards

Values

Responsiveness – being proactive; having a bias for action and sense of urgency in getting things done; anticipating client needs and taking fast action to surpass their expectations.

Integrity – possessing an unwavering commitment to doing the right things right, with consistent adherence to the highest professional standards; keeping commitments to our customers, co-workers and others.

Innovation – dedicating ourselves to learning and growing; constantly searching for better ways to get the job done; using our collective imagination to creatively and effectively solve problems for our customers; going beyond perceived boundaries to get desired results.

Teamwork – recognizing that every employee is important to the complete satisfaction of our clients as well as the ultimate success of our City; feeling personally responsible for successful outcomes, treating everyone with respect; communicating regularly with our employees and our customers, directly and honestly.

Excellence – producing outstanding value for the cost of our services; contributing tangible results for the City and its customers.

Strategies

- Demonstrate good fiscal stewardship
- Achieve operational excellence in core service delivery
- Build and diversify the city's economy
- Foster livable neighborhoods
- Systematically invest in community infrastructure
- Comprehensively address mobility needs
- Leverage social capital and celebrate diversity
- Capitalize on technology to improve service delivery
- Make the City of Arlington an "employer of choice"
- Ensure responsive communication

Building Permits

A basic growth indicator of a community is the value of building permits. The following chart shows the value and number of building permits issued by category for each of the past three years:

Classification	2003		2002		2001	
	<u>Value</u> (000's)	<u>Number</u>	<u>Value</u> (000's)	<u>Number</u>	<u>Value</u> (000's)	<u>Number</u>
Residential	\$253,307	4,296	\$294,839	5,026	\$265,430	5,327
Duplex	2,802	22	1,884	18	747	8
Apartments	18,170	16	13,240	12	14,886	22
Commercial	72,186	243	130,811	315	102,400	294
Institutional	34,234	70	84,112	94	13,333	108
Alterations and Additions	73,140	560	58,360	618	31,947	562
Signs	2,227	1,168	2,612	1,359	2,414	1,191
Miscellaneous	<u>24,347</u>	<u>526</u>	<u>13,694</u>	<u>558</u>	<u>22,562</u>	<u>426</u>
Total	<u>\$480,413</u>	<u>6,901</u>	<u>\$599,552</u>	<u>8,000</u>	<u>\$453,719</u>	<u>7,938</u>

Major Initiatives

During fiscal year 2003, the citizens and elected officials of Arlington cooperated in the planning and implementation of several major projects. These projects include the design of plans for city growth and development, planning and construction of new facilities and aggressive economic development activities.

City Growth and Development. Approximately \$2.6 million in water improvements and street paving were completed by September 2003 on West Sanford Street from Fielder Road to Oakwood Drive. These improvements are expected to improve the water, sanitary sewer, and storm water drainage in the area.

In January 2003, the City completed construction of a one-mile stretch of New York Avenue from Abram Street to Park Row Drive. Voters authorized funding for pavement upgrades in the 1999 Bond Election.

Nearly \$9.4 million in construction was completed by November 2003 on the Cooper Street improvement project. Contractors widened Cooper Street to six lanes from I-30 to Abram Street. This project also included landscaping, street lighting and utility upgrades.

New Facilities. In January 2003, the City began construction of the West Arlington Police Service Center. The \$3.5 facility is located at 2060 W. Green Oaks Blvd. Voters authorized funding for the 19,285 square-foot facility in the 1999 Bond Election.

The City reopened the Howard Moore Play Pool in central Arlington, after \$651,722 in renovations were completed during 2003. The pool, built in the early 1960s had been closed since 1999. At the close of the 2003 swim season, the Howard Moore Play Pool had more than 9,000 visitors.

The City's fifth and largest branch library opened south of Interstate 20 at 900 S. Green Oaks Blvd. The new Southeast Branch Library encompasses 15,000 square feet offering 16 adult public

access computers and 12 computers in the Children's Learning Center. On opening day, there were 41,000 volumes in the collection with a capacity for 70,000 items.

Economic Development. Siemens Dematic Postal Automation relocated its national headquarters to a site adjacent to The Ballpark in Arlington where it is expected to employ 500 workers and make a \$35 million capital investment. Siemens Dematic Postal Automation is a designer and manufacturer of mail sorting and image recognition systems for the postal industry and has been an Arlington corporate citizen for 43 years.

Airborne Express moved its regional distribution hub into 66,000 square-feet of space on New York Avenue. Forty new jobs were added with a \$3 million capital investment in the community. Airborne Express serves the shipping needs of business customers around the world.

Wal-Mart Stores, Inc. filed development plans for a new 187,183 square-foot supercenter to be located at the northeast corner of Randol Mill Road and North Collins Street. Construction is expected to start in March or early April of 2004.

Management Information

The City operates under the council-manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. Currently three Council members and the Mayor are elected "at Large" and five Council members are elected in five single member districts. All members of the Council are elected for terms of two years, with an election being held each year for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

The City Manager, appointed by the City Council, is the administrative head of the municipal government and carries out the policies of the City Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents.

The City Council also appoints members to certain boards, commissions, and authorities, as it deems necessary for the operation of the City.

Accounting System, Budgetary Control and Internal Control

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management, the internal audit staff of the City and the City's independent certified public accounting firm.

As part of the City's single audit, tests were made to determine the adequacy of the internal control

structure and of its compliance with applicable laws and regulations, including those related to major federal and state award programs. The results of the City's single audit for the year ended September 30, 2003 disclosed no material internal control weaknesses or violations of laws and regulations.

In addition, the City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, certain special revenue funds, debt service fund, and proprietary funds are included in the annual appropriated budget. Project-length budgets are prepared for capital project funds. The level of budgetary control is at the departmental level within each fund. The government also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are treated as a reservation of fund balance.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Property Taxes

The tax rate for 2002-2003 was 63.4 cents, which is unchanged from the 2001-2002 tax rate. The debt service portion of the tax rate decreased 1.9 cents while the general fund tax rate increased 1.9 cents over 2001-2002.

Property tax assessed valuations of approximately \$14,344,001,000 represented a 6.1 percent increase over the preceding year. Total property tax collections were 98.2 percent of the current tax levy. Outstanding delinquent taxes (net of penalty and interest) amounted to \$4,756,000 at September 30, 2003.

Cash Management

The City of Arlington has designated Bank One as the City's depository bank. The depository contract states that all available funds will be swept nightly into a concentration account. The concentration account is fully collateralized and interest bearing. Any funds not needed to meet short-term obligations are invested as authorized by state law and the City's investment policy.

The City invests its funds in accordance with the Public Funds Investment Act and statutory provisions of a written investment policy, approved by the City Council, that primarily emphasizes safety of principal and liquidity and that addresses investment diversification, yield, maturity, and the quality and capability of investment management. All City funds must be invested in investments that protect principal, are consistent with the operating requirements of the City, and yield the highest possible rate of return. These investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the City Council or the chief executive officer of the City.

The City invests in U.S. Government and Agency Securities, repurchase agreements, money market mutual funds, statewide pools, bankers' acceptances, commercial paper, and collateralized certificates of deposit. As of September 30, 2003, the total investment and deposit portfolio of the City for all funds was \$271,316,000 at fair value.

The investment program of the City's primary government for the fiscal year ended September 30,

2003, resulted in interest revenue of \$3,496,000. The operating cash of certain funds and component units is pooled into a cash management pool for the purposes of increasing income through combined investment activities. Interest is allocated on a quarterly basis to all funds in the investment pool based on their average balance at the end of each month. Excess cash balances in Capital Project Bond Funds and other selected funds are invested separately and interest earned is recorded in these respective funds.

Employee Retirement System

The City of Arlington participates in the Texas Municipal Retirement System (the "TMRS"), an agency operated by the State of Texas. Employees of local government entities who participate in TMRS contribute a fixed percentage of their gross pay, currently 7 percent for City of Arlington employees. The City matches the employee contribution at a two to one level. The actual amount the City contributes is actuarially determined bi-annually.

Also, the City has established a Part-time Deferred Income Trust (the "PDIT") in lieu of Social Security. Part-time employees currently contribute 3 percent of their gross pay. The city's contribution is actuarially determined bi-annually.

As employees leave municipal employment other than through retirement, they may withdraw from TMRS and PDIT those funds they contributed, but forfeit the employer's contribution. Each municipal employer's contributions, for the current contribution requirement, are offset by such forfeitures.

The City has a deferred compensation plan for its executives whereby the City contributes 5 percent of the executive's annual salary to the plan. Additionally, two elective defined contribution retirement plans are available to all employees. The first plan is a Thrift Savings Plan, where employee contributions are matched fifty cents to the dollar, up to 6 percent of the employee's income. The second plan is administered by Fidelity Investments and funded entirely by employee contributions.

Prior to October 1, 1992, City employees participated in a Disability Income Plan (the "DIP"), a single employer disability plan, which was funded entirely by contributions from the City. Currently the City provides active employees with disability insurance through a policy obtained from a commercial carrier. A detailed description of the status of these plans can be found in the Notes to Financial Statements.

Risk Management

The City currently has three insurance funds reported in Internal Service Funds: Arlington Property Finance Authority, Inc. Fund (the "APFA"), Workers' Compensation Fund (the "WCF") and Group Health Fund (the "GHF").

APFA, established in fiscal 1986, accounts for the City's general liability insurance program. In January 1999, the City issued \$7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue have been used to recapitalize the City's self-insurance program. An actuarial study estimated that the \$7,000,000 of proceeds would adequately fund the self-insurance program through fiscal year 2006.

The APFA claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield

assumption of 2.2 percent. These liabilities are reported in the accompanying financial statements at their present value of \$1,652,000 at September 30, 2003.

The City's workers' compensation plan provides City employees with workers' compensation insurance through the WCF. Under this program, the WCF provides coverage for up to a maximum of \$300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. All City departments participate in the workers' compensation program. Payments to the WCF from each department are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield of 1.7 percent. These liabilities are reported in the accompanying financial statements at their present value of \$4,837,000 at September 30, 2003.

Group medical benefits are paid through the Group Health Fund which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage. The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of \$2,991,000. The City's liability also includes a terminal reserve to the previous insurance company. The liability for this reserve is approximately \$3,303,000 at September 30, 2003. The resulting total claims liability reported in the accompanying financial statements at present value is \$6,294, 000.

Independent Audit

State statutes require an annual audit by independent certified public accountants. The firm of KPMG LLP was selected by the City Council. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget's Circular A-133. Generally Accepted Auditing Standards and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The Report of Independent Public Accountants on the financial statements and schedules is included in the financial section of this report. The Report of Independent Public Accountants related specifically to the single audit is included in a separate document.

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its comprehensive annual financial report for the year ended September 30, 2002. This was the twenty-sixth consecutive year that the City has received this prestigious award. In order to be awarded the Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for our twenty-seventh consecutive certificate.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner and City management for its continued support and assistance.

Respectfully submitted,

Donna Swarb, CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Arlington,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

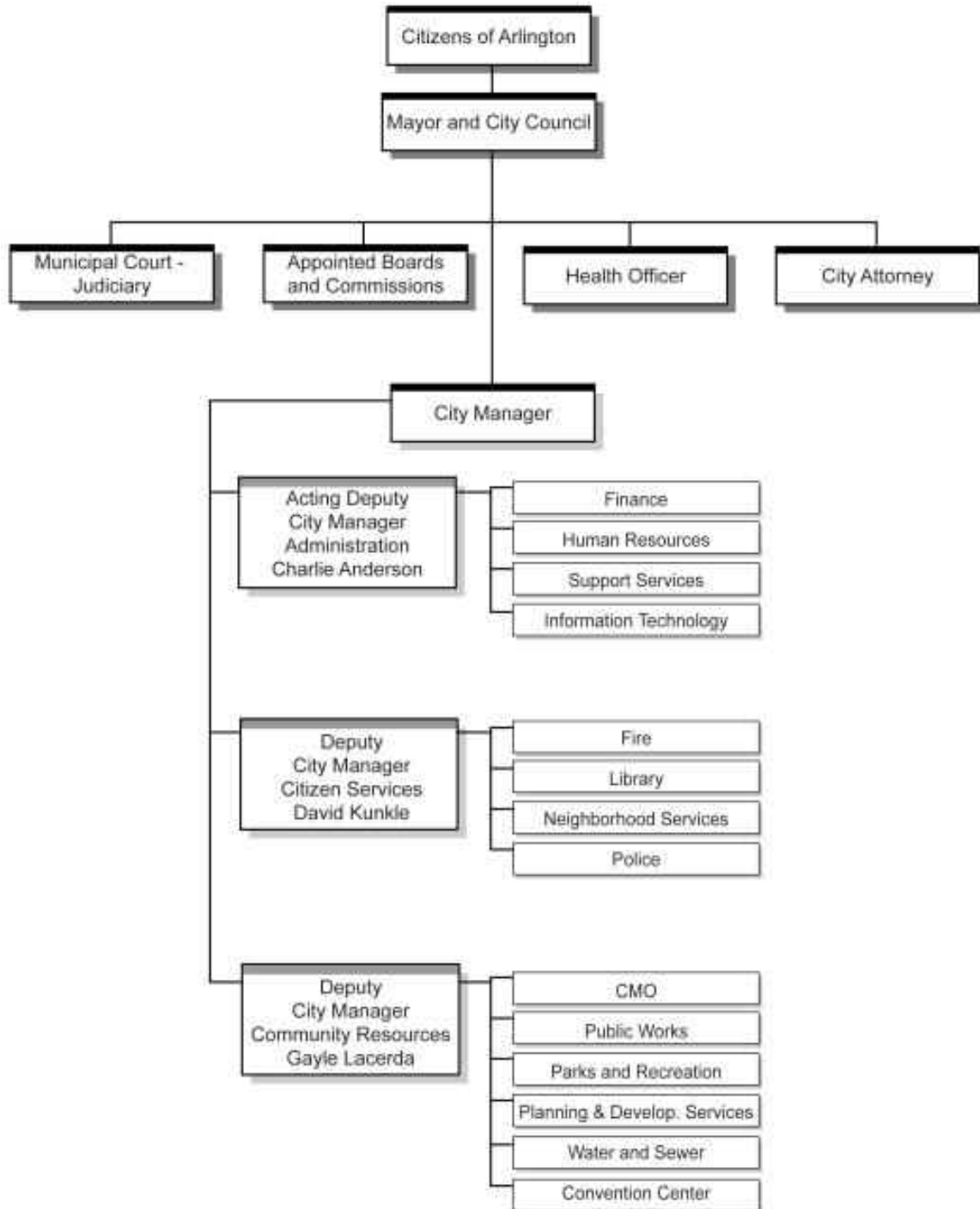
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ARLINGTON ORGANIZATIONAL CHART



City of Arlington, Texas

City Council

Robert Cluck

Mayor

Term expires May 2005

Wayne Ogle, District 3

Mayor Pro Tem

Term expires May 2005

Joe Bruner, District 1

Term expires May 2004

Bill McFadin, District 2

Term expires May 2004

Kathryn Wilemon, District 4

Term expires May 2005

Lana Wolff, District 5

Term expires May 2005

Steve McCollum, At-Large

Term expires May 2004

Ron Wright, At-Large

Term expires May 2004

Gene Patrick, At-Large

Term expires May 2005

City Manager

Chuck Kiefer

Chief Financial Officer

Donna Swarb, CPA